

## Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 IGA-02 DRC-01 /210 W  
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R 171330Z SEP 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 0931

INFO AMEMBASSY ABU DHABI

USINT ALGUERS

AMEMBASSY BEIRUT

USMISSION EC BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LONDON

XMAMEMBASSY LAGOS 0085

USMISSION OECD PARIS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY TOKYO

AMEMBASSY VIENNA

C O N F I D E N T I A L KUWAIT 3969

BEIRUT PASS BAGHDAD

EO 11652: GDS

TAGS: EALR ENRG KU

SUBJ: GULF PRESIDENT DISCUSSES RECENT OIL DEVELOPMENTS

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1. GULF PRESIDENT JAMES LEE PASSED FOLLOWING INFO TO ME RIGHT

AFTER GULF/BP MEETING WITH MIN FINANCE AND OIL ATEEQI SEPT 17:

A. ATEEQI SAID OPEC FIRMLY DECIDED THERE WERE TO BE NO MORE NEGOTIATIONS WITH COMPANIES; OPEC SETS THE TERMS, TAKE THEM OR LEAVE THEM.

B. KUWAIT HAD PROPOSED SETTING OIL PRICES ON 12 MONTH BASIS; PRICES TIED TO INFLATION INDEX. ATEEQI SAID THERE HAD NOT BEEN SUFFICIENT TIME AT VIENNA NAIL IT DOWN, BUT HE OPINED IDEA HAD GOOD CHANCE OF BEING ACCEPTED AT DECEMBER OPEC MEETING, TO START WITH YEAR 1975. OPEC MEETING HAD DEALT ONLY WITH FOURTH QUARTER OF 1974.

C. ATEEQI DESCRIBED DECISIONS OF OPEC MEMBERS (EXCLUDING SAUDI ARABIA) ON ROYALTY RATES, GOVT TAKE, AVERAGE COST TO PRODUCER OIL COMPANIES, ETC ALONG LINES PARA ONE OF BEIRUT'S 11180. LEE SAID GULF AND BP WERE ASKED IF THEY PREFERRED PAY INCREASED TAX AS INCOME TAX OR AS EXPORT TAX. ACCORDING ATEEQI, GOK IMPOSITION OF EXPORT TAX WOULD NOT HAVE TO BE REFERRED TO KUWAITI NATIONAL ASSEMBLY WHEREAS LEVY OF INCOME TAX WOULD. HOWEVER, ATEEQI SAID GOK WOULD LEAVE THIS DECISION UP TO COMPANIES.

D. ACCORDING ATEEQI, OPEC MEMBERS AGREED TO STANDARDIZE PRICES OF BUY BACK CRUDE AT 93 PERCENT OF POSTED PRICE. ATEEQI TOLD LEE KUWAIT WOULD ABIDE BY THIS DECISION AS WELL, AS OF BEGINNING FOURTH QUARTER.

E. ATEEQI TOLD GULF/BP KUWAIT PREPARED SELL THEM 700,000 BPD OF PARTICIPATION CRUDE IN FOURTH QUARTER (SAME AS THIRD QUARTER) PLUS "ANOTHER 1-200,000 BPD, AND MAYBE EVEN UP TO ONE MILLION BPD". LEE SAID GULF/BP REPS HAD TOLD ATEEQI COMPANIES WOULD LET GOK KNOW BY SEPT 21 HOW MUCH BUY BACK CRUDE THEY WANTED ABOVE 700,000 BPD. (LEE SAID COMPANIES MIGHT WANT 50-100,000 BPD MORE).

2. LEE SAID COMPANIES' ALLOWABLES FOR EQUITY CRUDE FOR FOURTH QUARTER REMAINED BASED ON PRODUCTION OF TWO AND HALF MILLION BPD, OR ABOUT 500,000 EACH.

3. LEE SAID STATEMENT (WHICH HE ATTRIBUTED TO AMOUZEGAR OF CONFIDENTIAL

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IRAN) THAT AVERAGE GOVERNMENT TAKE ON ALL CRUDE PRODUCTION INCREASED AT VIENNA MEETING BY 33 CENTS WAS "FICTITIOUS". 33 CENT FIGURE WAS BASED ON PARTICIPATION TO EQUITY CRUDE RATIO OF 60-40, WHEREAS IN GULF AND BP CASES RATIO WAS PRECISELY THE OPPOSITE. ASSUMING THAT GULF AND BP BOUGHT SAME QUANTITIES OF CRUDE FROM KUWAIT IN FOURTH QUARTER AS IN THIRD, (ROUGHLY ONE MILLION BPD EQUITY OIL AND 700,000 BPD PARTICIPATION OIL, INCREASE IN GOVERNMENT TAKE WORKED OUT TO 60 CENTS, I.E. FROM

8.69 DOLLARS PER COMPOSITE BARREL TO 9.29 DOLLARS. LEE EXPRESSED HIS CONCERN THAT WITH 33 CENT FIGURE IN MIND, CONSUMERS LIKELY RESENT ADDITIONAL PRICE HIKES REFLECTED BY 60 CENT INCREASE WHICH WERE NOT BEING ADEQUATELY EXPLAINED TO THEM.

4. LEE SAID GULF HAD DECIDED TO ANNOUNCE SHORTLY THE ESTABLISHMENT OF GULF MIDDLE EAST COMPANY WITH HEADQUARTERS TEMPORARILY IN PITTSBURGH. LEE ADDED ANNOUNCEMENT OF NEW COMPANY HAD BEEN MOVED FORWARD AFTER GULF LEARNED EXXON ALSO PLANNED ANNOUNCE FORMATION OF SIMILAR MIDEAST COMPANY.

5. COMMENT: WE FIND IT INTERESTING (A) THAT GOK HAS OFFERED TO SELL GULF AND BP ONE TO THREE HUNDRED THOUSAND BPD MORE OF ITS PARTICIPATION CRUDE THAN IT PERMITTED COMPANIES TO BUY IN THIRD QUARTER, AND (B) THAT BUY BACK PRICE FOR FOURTH QUARTER WILL HAVE FALLEN FROM 94.8 PERCENT OF POSTED TO 93 PERCENT. SLENDER AS THEY ARE, THEY DO APPEAR TO BE STRAWS IN WIND POSSIBLY INDICATING THAT KUWAITIS' SHARP SENSES TELL THEM THEY HAVE REACHED THE LIMIT OF UPWARD PRESSURE ON PRICES AND DOWNWARD PRESSURE ON PRODUCTION -- AT LEAST FOR THE TIME BEING.  
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